

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Vargas Analyst: Kristina E. North Bill Number: AB 243
Related Bills: None Telephone: 845-6978 Introduced Date: February 3, 2003
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Exemption/Up to 50% of Clergy Member Salary For Rental Value Or Allowance For Home

SUMMARY

This bill would increase the maximum rental allocation amount for ministers who are state employees.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to raise the rental allocation amount to reflect the rising housing costs in California.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective upon enactment and operative for taxable years beginning on or after January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal tax law excludes from a minister's gross income 1) the rental value of a home furnished as part of his or her compensation; or 2) the rental allowance paid as part of his or her compensation to the extent used to rent or provide a home. Federal regulations allow a rental allowance to be used to 1) rent a home, 2) purchase a home, or 3) pay expenses directly related to providing a home.

The federal Clergy Housing Allowance Clarification Act of 2002 (P.L. 107-181) specified that the amount of rental allowance exclusion is limited to the amount used to provide the home, and may not exceed the fair rental value of the home, including furnishings and accessories, plus the cost of utilities. No fair rental value is stated, however, the amount may not exceed the fair rental value of the home. This act is applicable for taxable years beginning after December 31, 2001.

Current state tax law conforms to federal law as of January 1, 2001. However, California does not currently conform to the federal Clergy Housing Allowance Clarification Act of 2002. As a result, a minister's gross income exclusion is limited to the actual amount used to provide a home.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director
Gerald H. Goldberg

Date
3/7/03

Under the California Government Code, up to 25% of gross salary for a state-employed minister may be allocated for 1) the rental value of a home furnished as part of his or her compensation, or 2) the rental allowance paid to rent or provide a home.

THIS BILL

Under the California Government Code, this bill would:

- ◆ increase the maximum amount that may be allocated as a housing allowance from the gross salary of a state-employed member of the clergy from 25% to 50%;
- ◆ change the term “minister of the gospel” to “member of the clergy”; and
- ◆ define “member of the clergy” to mean a priest, minister, religious practitioner, or similar functionary of a religious denomination or religious organization.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department’s programs and operations.

OTHER STATES’ INFORMATION

Review of *Illinois, Massachusetts, Michigan, Minnesota, and New York* laws found no comparable limitation on a state chaplain’s rental value allowance. These states were reviewed because of the similarities between California income tax laws and their tax laws.

FISCAL IMPACT

This bill would not significantly impact the department’s costs.

ECONOMIC IMPACT

Revenue Estimate

This bill is expected to have a minor revenue loss of approximately \$150,000 annually.

Revenue Discussion

Based on data from state sources, approximately 190 ministers are employed by the State of California, roughly 85% of who are full-time employees. The annual average salary is approximately \$50,000. This bill would allow an additional 25% of the annual average salary to be designated for the rental allowance exclusion. Specific data for part-time minister employee salaries is unavailable; however, this estimate includes an allowance for part-time minister employees. This estimate assumes an average marginal tax rate of 7%.

LEGISLATIVE STAFF CONTACT

Kristina E. North
Franchise Tax Board
845-6978
Kristina.North@ftb.ca.gov

Brian Putler
Franchise Tax Board
845-6333
Brian.Putler@ftb.ca.gov